

Message Text

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ACTION EB-08

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FM AMEMBASSY GABORONE
TO SECSTATE WASHDC 9523

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FOR EB/IFD/ODF: JOHN BLANEY

E.O. 11652: N/A
TAGS: EFIN, EAID, OREP, BC
SUBJECT: SENATOR GRAVEL'S PAPER ON TAXATION FOR DEVELOPMENT
ASSISTANCE

REF: STATE 009837

1. EMBASSY SHARES FEELING OF URGENCY CONTAINED IN SENATOR
GRAVEL'S REPORT THAT U.S. MEET OBJECTIVES OF DEVOTING 0.7 PER-
CENT OF GNP TO OFFICIAL DEVELOPMENT ASSISTANCE (ODA).
GOB UNDOUBTEDLY HAS SAME CONVICTION.

2. PROPOSAL WOULD TAX EXCLUSIVELY FOREIGN EARNINGS OF THE
MULTINATIONAL CORPORATIONS (MNC) TO HELP MEET 0.7 PERCENT
OBJECTIVE AND, IN TURN, WOULD REIMBURSE MNC'S BY TAX CON-
CESSIONS IN THE U.S. APART FROM RAISING REVENUE FOR ODA,
PLAN IS INTENDED TO POLISH TARNISHED IMAGE OF MNC IN LDC'S
BY REQUIRING IT TO BEAR LARGE PART OF ODA BURDEN.

3. EMBASSY CONSIDERS GRAVEL PROPOSAL EXTREMELY INTERESTING
AND ITS INTENTIONS LAUDABLE, I.E. TO QUICKLY BRING U.S.
ODA TO 0.7 PERCENT OF GNP, PROVIDE A RELIABLE FLOW OF
ODA FUNDS AND CREATE IMPETUS FOR IMPROVED MNC BEHAVIOR
THROUGH TAX CREDIT ELIGIBILITY. EMBASSY, HOWEVER, NOT
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IN POSITION TO JUDGE ITS WORLD-WIDE UTILITY. CONCERN-
ING BOTSWAN, WE FEEL THAT MUCH OF PLAN
MAY NOT BE RELEVANT TO SITUATION HERE PARTLY BECAUSE NEED TO
POLISH MNC IMAGE IN THIS WAY DOES NOT EXIST:

A. PROBLEMS WITH MNC IMAGE HERE TO DATE NOT OF
TYPE WHICH MIGHT BE CORRECTED BY TAXING MNC'S FOR ODA.

DIFFICULTIES WITH SELEBI-PIKWE PROJECT, FINANCED PARTLY BY AMERICAN METALS CLIMAX, STEM FROM MNC MANAGERIAL, TECHNICAL AND ENGINEERING GAFFS RATHER THAN WITH TRADITIONAL MNC FAULTS CITED IN GRAVEL PAPER. IN VIEW OF MILLIONS LOST BY ALL PARTIES AND MILLIONS WHICH AMAX MUST PUMP IN OVER NEXT FIVE YEARS TO MERELY KEEP SELEBI-PIKWE RUNNING, TAXING OF AMAX PROFITS HERE (OF WHICH NONE HAVE YET MATERIALIZED IN THIS FORTH YEAR OF PRODUCTION) WOULD NOT SEEM WISE OR IN INTERESTS OF GOB.

B. THROUGH STRICT CONTROL OF WAGES, NUMBERS OF EXPATS, CORPORATE PROFIT-MAKING, AND EXPLOITATION OF BOTSWANA'S RESOURCES, GOB DOES NOT HAVE MNC PROBLEMS WHICH PLAGUE OTHER LDC'S, AND IS UNLIKELY TO LET THEM DEVELOP IN FUTURE; IF ANYTHING, GOB ENCOURAGES MNC'S TO SETTLE HERE.

C. GOB LEADERSHIP PRAGMATIC AND, THEREFORE, DOES NOT FUNDAMENTALLY CARE HOW USG RAISES REVENUE WITH WHICH IT MEETS ITS ODA COMMITMENTS.

4. WERE GOB PRESSED TO GIVE VIEWS ON PROPOSED MECHANICS OF RAISING REVENUE FOR U.S. ODA, REACTION PROBABLY LESS THAN ECSTATIC FOR FOLLOWING REASONS:

A. FACT THAT MNC'S REIMBURSED THROUGH U.S. TAX CONCESSIONS MAY TO SOME AFRICANS SUGGEST A SLIGHT-OF-HAND TRICK TO FOOL THEM. MNC'S ARE NOT REALLY PAYING AS, NO DOUBT, USG SPOKESMEN WOULD BE REQUIRED LIMITED OFFICIAL USE

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TO CLAIM.

B. IF U.S. WERE REALLY COMMITTED TO LDC'S, FUNDS SHOULD BE APPROPRIATED OPENLY AND IN NORMAL WAY BY CONGRESS, NOT RAISED BY DEVIOUS METHODS.

C. MOST IMPORTANT, AND GLARINLY, FOR ALL THE MENTION OF PRINCIPLES OF BEHAVIOUR OF MNC'S (NOT A REAL PROBLEM IN BOTSWANA ANYWAY), GRAVEL PLAN APPEARS TO LEAVE A CRITICAL ASPECT OF THE CHIEF AFRICAN PROBLEM UNTOUCHED: U.S. BUSINESS TIES TO SOUTH AFRICA AND THE UNFAIR PRACTICES OF AMERICAN CORPORATIONS THERE. IN TERMS OF HUMAN RIGHTS THE WORST ABUSES ARE FOUND IN THE RS. IF THE GRAVEL PLAN RAISES THE QUESTION OF HUMAN RIGHTS AND THEN FAILS TO TACKLE HEAD-ON THE ABUSES OF THEM IN THE RSA, IT SMACKS OF THE KINDS OF HYPOCRISY WHICH AFRICANS THESE DAYS SEEM TO FIND IN U.S. POLICY.

5. GENERALLY SPEAKING, IF GRAVEL PLAN WERE TO RAISED MORE REVENUES FOR ODA AND BOTSWANA WERE TO RECEIVE FAIR SHARE

OF THEM, IF NOT MORE, PRAGMATIC GOB WOULD NOT LOOK GIFT HORSE IN MOUTH. NEVERTHELESS, BECAUSE OF SLIGHT OF HAND ASPECT INVOLVING TAX CONCESSIONS AND POSSIBLE FAILURE TO DEAL DECISIVELY WITH MNC/HUMAN RIGHTS PROBLEM IN SOUTH AFRICA, WE BELIEVE PLAN WOULD NOT RESULT IN SUBSTANTIALLY INCREASED APPRECIATION FOR U.S. OR MNC'S IN BOTSWANA.

6. EMBASSY WONDERS WHETHER GRAVEL PAPER REALLY JUSTIFIES REASON, AS MATTER OF PRINCIPLE, WHY PARTICULAR SECTOR OF U.S. ECONOMIC LIFT, IN THIS CASE MNC'S, SHOULD BE SINGLED OUT TO UNDERTAKE FUNDING OF OVERALL USG COMMITMENT. TOO, MNC'S ALREADY PAY CONSIDERABLE TAXES ON PROFITS TO HOST COUNTRIES. WOULD USG BE DOUBLE TAXING MNC PROFITS? WOULD MNC'S STILL HAVE TO PAY TAXES ON PROFITS MADE OUTSIDE OF LDC'S? WOULD MNC'S WITH NO LDC OPERATIONS STILL PAY THIS TAX?
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7. EMBASSY ALSO WONDERS WHETHER, IN VIEW OF TRADITIONAL PUNITIVE AND REGULATORY FUNCTIONS OF TAX IMPOSITION, TAX MIGHT WELL BACKFIRE BY LENDING USG WEIGHT TO POPULAR MYTH THAT MNC'S REALLY HAVE BEEN PLAYING NEFARIOUS ROLE IN LDC'S. FURTHERMORE, IF BURDEN ULTIMATELY TO FALL ON U.S. TAXPAYER ANYWAY, WHY NOT APPROACH HIM DIRECTLY ON FOREIGN ASSISTANCE, THROUGH CONGRESSIONAL APPROPRIATIONS?

8. FINALLY, READING OF PAPER DOES NOT MAKE CLEAR TO US HOW, IF AT ALL, GRAVEL PLAN WOULD TACKLE MOST CRUCIAL PROBLEM OF HUMAN RIGHTS AND CORPORATE BEHAVIOR IN SOUTH AFRICA.

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